

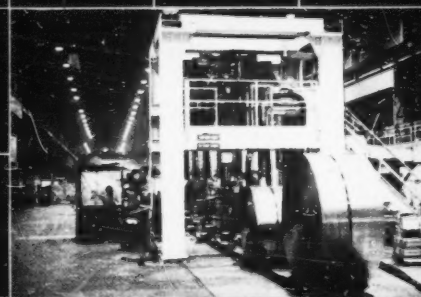
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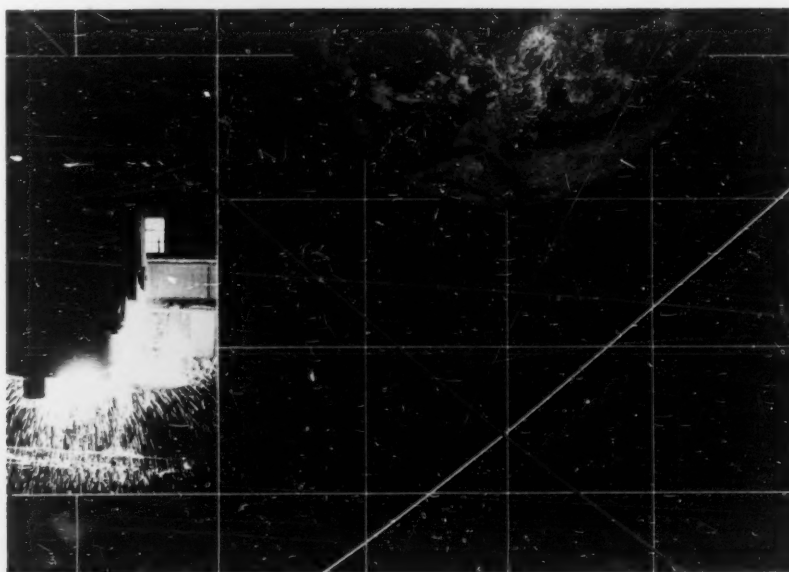
WORLD STEEL REPORT

BRINGING SUPPLY IN LINE WITH DEMAND

KAWASAKI UNVEILS ITS THIN SLAB CASTING PROCESS
STEEL SPENDING IN 1985—A PICTORIAL REVIEW
THIRD QUARTER STEEL AND NONFERROUS EARNINGS

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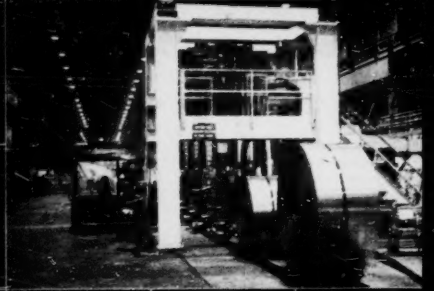
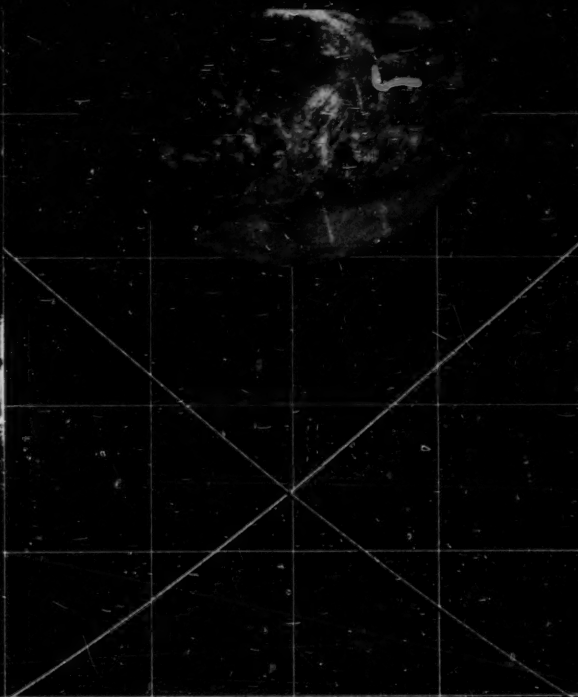
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WORLD STEEL REPORT

BRINGING SUPPLY IN LINE WITH DEMAND

BY GEORGE J. MCMANUS

"You light a candle at every altar," said Donald H. Trautlein, chairman of Bethlehem Steel Corp. and also chairman of the American Iron & Steel Institute.

Mr. Trautlein was talking about steps that could be taken to force foreign countries to limit their steel shipments to the U.S.

He cited Presidential action, legislation, and trade suits as measures to be directed against any nation that failed to comply with the Reagan's Administration's program of voluntary restraint.

"All hell will break loose," he said when asked about the consequences of foreign feet dragging.

It did appear that there were enough candles and enough altars to make it likely the flow of steel into America would be slowed. The day was past when the trade complaints of American steelmakers could be dismissed as the mouthings of an isolated, backward industry.

The basic steel industry now had lots of company. The U.S. trade deficit was running at an annual rate of more than \$130 billion. Producers of semicon-

World Steel Consumption

Industrialized Countries

Million Metric Tons

	Average 1977-1983	1985E	1990F	1995F
N. America	136	122	109	104
EEC	102	93	91	90
Japan	71	73	73	73
Other Ind.	44	43	44	46
TOTAL	353	331	317	313

Developing Countries

Million Metric Tons

	Average 1977-1983	1985E	1990F	1995F
Latin America	31	28	35	40
Asia	39	51	60	66
Africa	10	11	12	13
Middle East	16	14	16	18
TOTAL	96	104	123	137

E = Estimated

F = Forecast

Source: IISI

ductors, electric razors and other high tech items were among those crying foul. Growing protectionist sentiment within Congress showed up when the House approved a textile quota by a vote of 262 to 159.

Apart from pressures that could be brought to bear within the U.S., a number of external factors pointed toward more orderly conditions in the world steel market. For one thing, world demand was expected to level out.

"The demand for steel products in the major industrial countries is likely to be relatively stable over the next decade," said Lenhard J. Holschuh, secretary general, International Iron & Steel Institute (IISI).

Mr. Holschuh saw little prospect of growth, but if he's right, the big steel nations should at least avoid the kind of market contraction that made the last few years so difficult. From 442 million metric tons in 1979, crude steel output of the industrial nations fell to an estimated 331 million tons in 1985.

Raw steel output will probably come down a little over the next 10 years, said Mr. Holschuh, but mostly because the conversion to continuous casting will mean the same amount of finished product can be made from less liquid metal.

World demand is stabilizing and steelmaking capacity is being brought into better balance with demand. From 1980 to 1985, capacity

was reduced by 28 million tons in Europe, 23 million tons in North America, and by 17 million tons in Japan (all metric).

Less Capacity

Steel executives think more capacity should be subtracted. Mr. Trautlein indicated that the U.S. industry would need to shed another 20 million tons of raw steel production. There will probably be more cuts, but the shutdowns to date have restored the market balance of five years ago. In both 1980 and 1985, Western World producers operated at about 78 pct of capacity.



The cause of harmony was also being promoted by the mellowing of foreign steel producers. At the recent London meeting of IISI, there were none of the angry recriminations that have marked past sessions of the organization. The atmosphere was conciliatory, although Mr. Trautlein did use pretty strong language in setting forth the U.S. position.

"The U.S. government stands alone among nations in permitting up to 20 pct of our country's steel requirements to be supplied by imports," he said. "No other major steel producing nation in the free world is even a net importer."

Mr. Trautlein said it was absolutely essential that a new agreement covering European steel exports be wrapped up by the end of October.

There was no talk of retaliation at the IISI meeting. Even the West Germans, who considered themselves blameless, seemed to accept the Reagan program as inevitable. "It is not protectionism," said Heinrich A. Kriwet of Thyssen Stahl. "They have a right to defend themselves."

While free trade proponents in the U.S. glossed over unfair tactics and attributed all problems to domestic inefficiency, it was taken for granted abroad that massive subsidies exist. Some of the strongest testimony in this regard came from

those who protested their own innocence.

"I am not subsidized," said Herbert Gienow, chief executive of Klockner Werke. "I am caught in the solidarity of the European community."

While arguing that he was being punished for the sins of others, Dr. Gienow freely acknowledged that there was a lot of sin in the world steel industry.

"The American steel industry is happy that subsidized steel has to cross 5,000 kilometers before it comes to the U.S.," he said. "For us, it has to cross but 50. The same subsidized steel is coming into Germany from Italy. They are receiving the most terrible amounts of government money."

There were other complaints at the IISI session, but it was all low-key. Swedish steel producers made a mild protest against a ruling that their country's shipments of cold rolled sheet to the U.S. should be subjected to an 8.77 pct countervailing duty.

Mild protest

The protest was so mild that it took considerable press prodding to draw a critical comment. "We don't think it is subsidy," said Henry Lundberg, president of SSAB, of the assistance given his company. Mr. Lundberg called the U.S. ruling "too harsh."

He suggested that some consideration should be given to Sweden's free trade policies. "Our borders are very open," he said. "We don't have any duties."

Sweden has no tariffs, but it does recognize that trade can be unfair and it is acting now against steel imports. "There are some dumping cases," said Mr. Lundberg.

Canadian officials argued that they, too, were victims, not villains, in the world market. The Canadian market is open, they said, and Canadian mills don't dump.

A top official said the U.S. and Canada should join in a trade arrangement that would protect the North American standard of living. He was against quotas on the

grounds that they permitted trade abuses to continue. Dumping cases are being processed in Canada.

In short, a lot of people felt they were in the same boat as the U.S. The inference seemed to be that others were taking their lumps while only the U.S. was crying for special treatment.

"You are complaining successfully because your government gives you some protection," said Dr. Gienow. "Ours cannot."

Mr. Trautlein noted, again, that there was another important difference between the U.S. situation and that of foreign countries. "When somebody tells you we import 5 million tons," he said "that's great, but they are exporting 7 million or 8 million tons. In our case, our 25 million tons of imports are offset not at all by exports."

There was still some bickering, but it looked as though the apparatus for controlling U.S. imports would soon be in place. As of late October, voluntary restraint agreements had been signed by 14 nations and the Common Market. There was optimism about a European steel treaty.

None of which meant the control machinery was certain to work. The Administration's steel program was supposedly launched in October 1984. Through bilateral voluntary agreements, the program aimed at limiting imports of finished steel to 18.5 pct of the U.S. market. Another 1.7 million tons of steel in semi-finished form was to be permitted.

Twelve months after the 1984 effective date there had been no real decline in steel imports of the U.S. Through September 1985, the 26 pct foreign share of the U.S. market was almost identical with the 1984 slice in the same months.

It could be argued that the absence of an import decline was due to delays in the negotiation of agreements. That was a factor, but the big problem was a rise of nearly 1 million tons in European shipments over the first nine months of 1985. This was discouraging because European steel was fully covered by an agreement signed in 1982.

Is protectionism 21 pct of the U.S. market or 7 pct of the E.C.?

At the recent London meeting, one speaker noted with satisfaction that the European Common Market had succeeded in limiting its steel imports to 7 pct of supply.

Later at the same meeting, the proposed steel import curbs of the U.S. were criticized as protectionist by Dr. Vorwerk, professional head of Eurofer. This brought a response from Peter B. Mulloney, vice president and assistant to the chairman, United States Steel Corp.

"I said I guess I have a language



"There will be intense competition with imports and between domestic producers."

Peter B. Mulloney
U.S. Steel Corp.

Judging by early experience, the new steel agreements could be equally porous. "We have about 80 countries now exporting to the U.S.," said Mr. Trautlein. "Some of them don't even have steel plants."

The same point was made by John Meagher, vice president, government relations, LTV Corp. "There are 18 countries with no steel mills which are now importing steel into America," said Mr. Meagher. "And important countries like Canada,

problem," said Mr. Mulloney. "The U.S. tries to cut back from 26 pct of its steel market supplied by imports to 21 pct and Dr. Vorwerk says that's protectionism. The EC maintains imports at 7 pct of its market and that's not protectionism."

"Dr. Vorwerk went all around the bush and he ended up saying: 'Well, of course, it's protectionism but we need it for our restructuring.'"

This exchange is an example of the kinds of assertions and assumptions American steelmakers face in their fight for trade curbs. In a far ranging interview, *Iron Age* put some of the fundamental questions to Mr. Mulloney.

Iron Age: *Most people now work in government, finance and other service areas. Do we really need a steel industry or any manufacturing?*

Mulloney: You can't run an economy and improve living standards unless you add value. Real value is added in the transformation of raw materials into products. That is what has improved mankind's living standards all over the world.

I don't think you can maintain the strength of the United States—I don't just mean military strength, but all the strengths that have made the United States the defender of the free world—I don't think you could do that with a service economy. I don't think you can sit back and say we're going to run our banks and deal in Toyota motor stock and be able to protect the free world. We're not a Switzerland.

Iron Age: *If we restrict imports, aren't we depriving consumers of low-priced foreign goods?*

Mulloney: In the short term, yes. In the long term, it is questionable because if you wipe out the manufacturers here, will the imports still come in at that low price when there is no longer the need to compete with the domestic manufacturer?

Secondly, the health of the consumer isn't governed totally by the prices of products. If low-priced imports are reducing the health of the economy overall through creation of unemployment and the need for higher taxes for unemployment compensation, then the consumer isn't benefiting.

Thirdly, if low-priced goods are coming in on a dumped or subsidized basis, it's against all our laws and any natural trading principle. You don't benefit in the long run by having predatory pricing.

Iron Age: *Won't manufacturers of auto, machines and other products be placed at a competitive disadvantage if they are deprived of low-priced foreign steel?*

Mulloney: You certainly will increase the cost of steel to the manufacturer, but I think the effect is pretty slight. A slight increase in the cost of steel doesn't have an awful lot of effect on an automobile that sells for \$8,000 or \$10,000. And if the price of material is less than it costs to make it, that situation can't continue long.

(Like consumers, said Mr. Mulloney, manufacturers would have to pay premium prices for imports if domestic sources were eliminated by trade.)

Iron Age: *But won't domestic steel companies take advantage of trade*

curbs to jack up their prices?

Mulloney: When you figure that under the President's program, 21 pct of the market is going to imports, there's no way for arbitrary pricing to take place. There will be intense competition with imports and between domestic producers.

Iron Age: *Aren't the industry's trade problems due to inefficiency?*

Mulloney: It's pretty clear today from outside observers that the U.S. industry is more efficient (than Europe). At Gary Works, the flat rolled operation is at the same level or better than the Koreans.

(Mr. Mulloney recalled the old argument that trade problems would be confined to a few backward inefficient industries.) We've all heard over a period of years that this smokestack industry can go away because high tech will succeed. The *Times* this morning had a story saying that American producers of chips have given up. Texas Instruments just announced that it is closing two plants.

Iron Age: *Granted there are problems today, but isn't free trade the ideal we should be striving for? Isn't free trade inherently better than protectionism?*

Mulloney: The whole underpinning of free trade—the theory of comparative advantage—falls apart when you have government involved.

You don't have free trade. It is largely managed trade. There has been entirely too much theory applied to the whole problem and not enough discussion of what is actually taking place.

Argentina, Austria, and Sweden have refused to bargain."

Specialty steel producers charged that their own tariff and quota programs were being shredded by a wide range of fraudulent tactics. The specialty industry's charges were aired in Washington by Richard P. Simmons, president of Allegheny Ludlum Steel Corp.

Mr. Meagher noted that the U.S. Congress had committed itself to attainment of the Reagan Administra-

tion's steel import targets.

"We urge the introduction and enactment now of legislation codifying the President's own program at a 20 pct level and requiring him to embargo shipments from those countries which fail to agree to a voluntary program," he added.

LTV's financial situation pointed up the need for prompt action. The company's inability to fund its pension plan had necessitated a waiver by the Internal Revenue Service.

It might already be too late for the Reagan program to do much good. Armco Inc. was projecting a sharp drop in imports—from 23.1 million tons in 1985 to 19.1 million tons in 1986. However, an even sharper decline in consumption of steel was seen lowering shipments of domestic mills to 66 million tons in 1986. In 1983, with shipments of more than 67 million tons, the steel industry lost more than \$3.5 billion.

(Cont. on p. 26B6.)

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COMBUSTION ENGINEERING



A strong domestic market in 1986 could create a different set of problems. If demand is strong enough to support the steel price increases proposed for January, there will no doubt be charges that domestic mills are taking advantage of trade protection to soak customers.

Steel men were doing little worrying about demand being too strong or their prices too high. It was possible, however, that the threat of a steel strike could tighten supply for a brief period in 1986. Labor contracts of the biggest mills expire next year, and management is determined to get concessions from United Steelworkers of America (USWA).

In the old days, strike "hedge" buying could add 10 million or 12 million tons to steel shipments in the six months before a contract termination. The shortages created by inventory buying opened the door for imports, and eventually led to the adoption of a no-strike clause in the steel contract.

That clause has been discarded and there could be a steel strike in 1986. It's difficult to imagine that this possibility will send people rushing out to buy extra steel. Not with a world surplus and with domestic mills bargaining individually this time. Nevertheless, an inventory boom could develop. With supply tightening, there would be agitation for relaxing the import controls.

Even a modest rise in demand might turn up bottlenecks in the steel system. For a number of years, there have been warnings of an impending coke shortage.

"The industrialized nations have reduced coking capacity by 42 million metric tons or 19 pct since 1981," said Frank W. Luerssen, chairman of Inland Steel Co. "The most dramatic change has occurred in the United States where 21 million tons of capacity has been retired since in the past four years.

In his IISI report, Mr. Luerssen added that the average age of coke ovens was 15.5 years throughout the world and 19.3 years in the U.S. He noted that investments in new coking capacity were unattractive.

Despite the subtractions and old age, Mr. Luerssen felt there would be plenty of coke. "We see a surplus condition extending far into the 1990's," he said.

What might develop is a shortage of the kind of steel demanded by customers. When Tuscaloosa Steel set out to buy semifinished steel for its new plate mill, the company was unable to line up continuously cast slabs from domestic sources. The continuous cast portion of U.S. production was still under 40 pct in 1984. Accordingly, Tuscaloosa Steel turned to British Steel for slabs.

Continuous casting represents just one part of a broad push for better quality. The large steel users are demanding ultra clean material, produced to close tolerances.

The quality drive showed up in IISI technical papers on the upgrading of rolling mills. Some fairly drastic innovations have surfaced, particularly in the hot strip mill area. Domestic producers will have to implement the new technology or face complaints that import curbs are depriving users of world-class quality. □

3RD QUARTER EARNINGS

PROFITS ELUDE THE METALS INDUSTRIES

BY GEORGE J. MCMANUS AND ROBERT REGAN

Stiff price competition, weak demand and a steady flow of imports trimmed the steel industry's earnings in the third quarter. Nonferrous metals producers also turned in a lackluster report.

Steel

Carpenter Technology Corp. lost money in the third quarter. Bethlehem Steel Corp. skipped a dividend for the first time in 46 years.

United States Steel Corp. bought another energy company and was pondering a name change. Wheeling-Pittsburgh Steel Corp. was trying to claw its way back from bankruptcy and a 98-day strike.

In other words, these are unusual times for the steel industry. In the third quarter, things were unusually bad—bad enough for even Carpenter to lose money. Carpenter had earned 7.8 pct and 11.4 pct on equity in its last two fiscal years. The company had a net loss of \$2.3 million in the third quarter.

"We expected lower sales for this current year's first (fiscal) quarter," said Paul R. Roedel, president of Carpenter, "but not to this extent."

Mr. Roedel said volume was being impacted by direct imports and by imports of manufactured products. "We believe a further rise in demand for capital goods will happen," he said, "but a significant portion of that demand will continue to be met by imports."

U.S. Steel's proposed acquisition of Texas Oil & Gas Corp. drew a certain amount of flak on the grounds that the new stock to be exchanged will dilute shareholder values.

The criticism was puzzling because the steel portion of U.S. Steel had an operating loss of \$4 million in the third quarter. Any dilution of

the deficit wouldn't be all that bad.

U.S. Steel spelled out the extent of the price erosion. Steel shipments of 3.2 million tons were up 15 pct from the third quarter of 1984, but transaction prices were down 10 pct.

"The sharp decline in transaction prices from the third quarter 1984 reduced sales by an estimated \$167 million," said David M. Roderick, chairman of U.S. Steel.

Weirton Steel Corp. continued its winning ways in the third quarter. Weirton's 6 pct return on sales was the best for any integrated producer.

However, the company's worker-owners were warned against complacency. "The steel business is in turmoil," said Robert L. Loughhead, Weirton president.

Mr. Loughhead characterized the current pricing situation as "sucidal" and said he wasn't optimistic about the future.

"Prices may not have bottomed out yet," he added.

Armco continued its profit recovery in the third quarter. The company earned \$48.6 million. There was a big lift from the sale of aerospace and strategic metals properties for \$134.7 million.

Armco's carbon steel business had a small operating loss. Specialty steels had an operating profit of \$11 million and fabricated product accounted for \$17 million.

"We are naturally gratified to report two consecutive quarters of profit," said Robert E. Boni, president of Armco.

The third quarter was unkind to Bethlehem and to Inland Steel Co. Bethlehem reported a net loss of more than \$76 million. Nearly half of this was due to a facility write-off, but the deficit was still hefty. Basic steel had an operating loss of \$12.7 million.

Inland had a net loss of \$51.9 million. There were various special charges, but Inland's integrated steel business had an operating loss of more than \$36 million.

National Steel Corp. had an operating profit of \$7.3 million with \$4.2 million of this coming from an inventory reduction.

LTV Corp. lost \$19.5 million in the third quarter and benefited from an exchange of debt.

The operating loss of \$24.9 million on LTV's steel operations was down from both the second quarter and from the third quarter of 1984.

LTV eased some of the financial pressure it has been facing by negotiating a deferment on a payment due its pension fund.

The electric furnace steelmakers seemed to be doing fairly well. Nucor Corp., Florida Steel, and Laclede Steel all were profitable in the third quarter. Quanex and Lukens made money.

The grim third quarter returns made it doubly certain steel producers will be seeking concessions from United Steelworkers of America next year. Mr. Roderick said U.S. (Sales and earnings table appears on the following page; story continues on p. 34B12.)

STEEL: LOW PRICES AND LITTLE DEMAND

THIRD QUARTER PROFIT REPORT—1985 (In Millions of Dollars)

	EARNINGS				SALES		
	1985 E/S	3rd Q 1985	3rd Q 1984	Pct Change	3rd Q 1985	3rd Q 1984	Pct Change
USS	2.0	100.0	153.0	-35.0	4,951.0	4,728.0	+4.7
LTV	—	(19.5)	(79.8)	—	2,023.0	2,049.9	-1.3
BETHLEHEM	—	(77.0)	(17.0)	—	1,294.8	1,363.0	-5.0
ARMCO	5.0	48.6	(272.7)	—	955.1	1,022.7	-6.6
INLAND	—	(52.0)	(40.0)	—	714.8	737.8	-3.1
NATIONAL	—	0.2	3.1	-94.0	512.2	563.6	+9.1
TOTAL	—	(27.0)	(207.6)	—	10,450.9	10,465.0	-0.1
CYCLOPS	1.8	6.0	4.2	+42.0	334.4	302.5	+11.0
WEIRTON	6.0	18.1	15.8	+15.0	297.0	256.0	+16.0
COPPERWELD	—	(14.6)	(4.8)	—	277.3	349.1	-21.0
INTERLAKE	2.7	5.6	10.1	-45.0	204.0	211.8	+3.7
NUCOR	7.7	15.7	11.8	+33.0	202.6	165.5	+22.0
CARPENTER	2.0	2.3	3.6	-38.0	109.9	126.7	-13.0
LUKENS	1.2	1.4	1.3	+3.8	109.6	102.6	+6.8
FLORIDA	3.2	2.4	1.7	+48.0	76.3	73.7	+3.5
QUANEX	1.7	1.3	2.0	-35.0	76.1	99.8	-24.0
LACLEDE	1.2	0.7	1.4	-49.0	58.5	55.9	+4.6
CF&I	—	(3.7)	3.6	—	52.5	80.5	-35.0
EASTMET	—	(4.0)	(7.9)	—	50.0	52.2	-4.3

NONFERROUS: THE RED INK CONTINUES TO FLOW

THIRD QUARTER PROFIT REPORT—1985 (In Millions of Dollars)

	NET INCOME			SALES AND OTHER REVENUES		
	3rd Q 1985	3rd Q 1984	Pct Change	3rd Q 1985	3rd Q 1984	Pct Change
ALCAN	\$7.0	\$52.0	-86.5	\$1,442.0	\$1,348.0	+7.0
ALCOA	57.1	60.1	-5.0	1,269.5	1,429.1	-11.0
ALUMAX	13.0	33.3	-61.0	493.0	457.0	-7.9
AMAX	(88.2)	3.1	—	455.7	559.5	-16.8
ASARCO	(12.1)	(10.1)	-19.8	291.4	287.2	+1.5
BRUSH WELLMAN	4.6	10.9	-57.8	61.5	78.2	-21.4
COMINCO	(28.4)	4.0	—	316.3	404.1	-21.7
CYPRUS MINERALS	15.5	(31.0)	—	186.8	157.4	+18.7
ENGELHARD	9.5	25.8	-63.2	533.4	619.9	-14.0
FALCONBRIDGE COPPER	(1.1)	0.8	—	76.4	64.8	+17.9
FALCONBRIDGE LTD.	3.7	31.8	-88.4	219.2	185.5	+18.2
FREEPORT MCMORAN	50.7	21.3	+138.0	161.5	205.3	-21.3
HECLA MINING	0.8	(11.8)	—	21.6	21.5	+0.5
HOMESTAKE MINING	2.0	9.9	-79.8	90.6	84.5	+7.2
INCO	11.6	(31.6)	—	314.0	323.0	-2.8
KAISER ALUMINUM	(17.7)	(73.2)	+75.8	526.4	548.8	-4.1
NEWMONT MINING	6.5	12.2	-46.7	165.9	163.7	-1.3
NORANDA	(30.6)	(48.4)	+36.8	936.2	747.9	+25.2
OLIN	(205.1)	16.3	—	427.1	430.8	-0.9
OREGON METALLURGICAL	0.3	1.6	-81.3	11.2	13.9	-19.4
PAMOUR PORCUPINE	6.1	(2.7)	—	12.0	12.5	-4.0
PHELPS DODGE	6.4	(24.5)	—	210.2	196.0	+7.2
PINE POINT MINES	0.4	0.8	-50.0	29.6	25.8	+14.7
REVERE COPPER	(3.2)	10.4	—	104.5	144.9	-27.9
REYNOLDS METALS	(303.8)	39.3	—	875.8	940.7	-6.9
SHERITT GORDON	(2.9)	(9.1)	+68.1	81.2	78.0	+4.1
VULCAN MATERIALS	28.7	28.7	—	274.1	266.9	+2.7

Alcan Aluminium, Ltd.: Net for the 1985 period includes \$8 million credit from tax-loss carryforward; operating loss was \$1 million. Net for 1984 period includes \$9 million credit from tax-loss carryforward; operating profit was \$43 million. **Aluminum Co. of America:** Equity income from unconsolidated units was \$16.9 million in the 1985 period compared with a \$3.2 million loss in the 1984 period. There was a \$7.7 million foreign currency exchange loss in the 1985 period and a \$3.9 million gain in the 1984 period. **Amox, Inc.:** Net for the 1984 period includes an extraordinary charge of \$4.2 million from reversal of tax-loss carryforward. **Cominco, Ltd.:** Canadian funds. **Cyprus Minerals Co.:** Results for the 1984 period are pro forma basis; the company was spun off from Amco Corp. July 1, 1985. **Falconbridge Copper:** Canadian funds. **Falconbridge, Ltd.:** Canadian funds. Net for the 1984 period includes a \$28.4 million credit from gain on sale of stock and from tax-loss carryforwards. **Freeport McMoran:** Net for the 1985 period includes \$32.9 million gain on sale of Freeport McMoran Gold Mines. **Hecla Mining Co.:** Results for the 1985 period include \$1.08 million loss from continuing operations and \$1.87 million gain from discontinued operations. Loss for the 1984 period includes \$10.6 million loss from continuing operations and \$1.1 million charge for reversal of tax-loss carryforward. **Kaiser Alumi-**

num & Chemical Corp.: Loss for the 1985 period includes \$3.5 million from discontinued operations; loss for 1984 period includes \$6.7 million from discontinued operations. **Newmont Mining Corp.:** Net for 1984 period includes \$1.6 million from discontinued operations. **Noranda, Inc.:** Canadian funds. **Olin Corp.:** Results for 1985 period include \$230 million charge relating to restructuring program and \$19.1 million gain on disposal of discontinued operations. **Pamour Porcupine Mines:** Canadian funds. Net for 1985 period includes \$6.2 million gain from sale of investments and \$1.5 million benefit from tax-loss carryforward. **Phelps Dodge Corp.:** Net for 1985 period includes extraordinary gain of \$1.5 million. **Pine Point Mines, Ltd.:** Canadian funds. **Revere Copper & Brass:** Loss for 1985 period is after \$5.8 million charge reflecting \$2.6 million settlement of liabilities and \$3.8 million reversal of tax-loss carryforward credit. **Reynolds Metals Co.:** Loss for the 1985 period includes net charge of \$313.5 million for writedown of certain assets. Net for the 1984 period includes \$11.6 million charge for shutdown at certain facilities. **Sheritt Gordon:** Canadian funds. Net loss for the 1985 period includes \$3.5 million gain from insurance proceeds. Net loss for the 1984 period includes extraordinary charge of \$4.2 million.

Steel's plants in the Pittsburgh area will have to have labor costs competitive with those recently negotiated by Wheeling-Pittsburgh.

Bethlehem Steel was hopeful of "reaching a restructured contract with our employees... well before July 31, 1986."

To make the outlook a little more gloomy, domestic producers learned that more than 2.5 million tons of steel were imported in September. With this kind of foreign volume, there was no way either demand or prices in the U.S. could recover.

Nonferrous

The 1984-85 business recovery continued to pass the nonferrous metals industry by during the third quarter. Gains in the profits column were few and far between and were, for the most part, either smaller losses or firms edging out of the red, as was the case with Phelps Dodge Corp. and Inco Ltd.

There was no discernible trend in the sales column, with 12 companies showing gains and 15 declines.

Metals producers were dogged by unresponsive prices, particularly in cases where the metal is traded on an exchange, and by competitive pricing from domestic and overseas competitors alike. The third quarter saw no runaway gains in producers' stocks, but consumers perceiving ready availability continued to live off lean inventories.

Production cutting over the past year or so failed to bolster aluminum prices. Output curbs mainly in the U.S. and some parts of Europe have been partly offset by greater capacity utilization in Canada, Australia and Latin America, slowing the inventory draw-down. The London Metal Exchange (LME) spot price for primary ingot trended downward in the period and then sagged in October.

LME nickel prices did likewise. Pricing for copper, lead, zinc, tin, molybdenum and other base metals during the third quarter wasn't much to write home about and things weren't going any better for the producers in October—even before the International Tin Council's

difficulties cast a pall over hedge market values in the final days of the month.

North America's five largest aluminum producers—Alcoa, Alcan, Reynolds Metals, Alumax and Kaiser Aluminum—had an aggregate 8.5 pct shipment gain. Alcoa's shipments slipped 1.5 pct, combining a 9.3 pct gain in deliveries of primary aluminum products and a 4 pct drop in shipments of mill products. Alcan showed a thumping 46 pct gain in ingot shipments and a 19.9 pct gain for mill products, but its operating results were in the red.

Alumax reported a 24.5 pct gain in tonnage shipments, but its third quarter net was down 61 pct. Reynolds Metals managed a 2.2 pct gain in shipments but the third quarter highlight was a \$387 million writedown of certain domestic facilities, principally alumina refining and aluminum smelting capacity.

Kaiser Aluminum, which substantially trimmed its third quarter loss compared with the same 1984 period, reported an 81.9 pct drop in ingot shipments and a 21.5 pct gain in mill product deliveries. Kaiser's shipments overall were down 9.5 pct in the quarter, however.

Alcoa Chairman Charles W. Parry said third quarter profits, although 5 pct under the same 1984 period, were still above expectations. He said ingot and mill product prices remained weak but the company's cost-cutting efforts were paying off.

Aluminum surpluses worldwide were declining slowly, he said, adding that it would take either more production cuts or a substantial increase in demand to accelerate the inventory run-off.

Phelps Dodge Corp. said its move back into the black reflected favorable unit costs and a slight improvement in prices compared with the third quarter last year.

Sales of copper mined by the company were up 36.3 pct in the quarter to 98,800 tons and also topped mine output amounting to 95,100 tons. In the first half of this year, the company's mine output topped shipments by 9 pct.

Asarco, Inc., noted that the average producer price for copper was up only 3.4 pct at 66.3¢ per lb, while the average price for silver fell 17.5 pct to \$6.13 an oz.

The company also recalled 20 workers at its Silver Bell, Ariz., mill to process slag from the company's Hayden, Ariz., smelter. Slag normally is a waste product, but Asarco officials said slag accumulated during startup of a new oxygen flash smelting furnace at Hayden had enough copper content to justify processing into copper concentrates.

Amax Inc. said its \$32 million operating loss in the third quarter, compared with \$48 million in operating profits in the same 1984 period, reflected larger losses on molybdenum and precious metals operations and reduced coal earnings. Copper processing operations also were in the red. Amax said magnesium losses rose because of higher costs and lower prices depressed aluminum earnings.

Inco, Ltd., credited lower unit costs and better nickel prices for the \$11.6 million profit registered in the third quarter compared with the \$31.6 million loss sustained in the same 1984 period. Inco's third quarter nickel deliveries dropped 9.1 pct, while deliveries of copper were down 38.6 pct and deliveries of silver and cobalt were down 10.2 pct and 25.9 pct respectively. Deliveries of platinum group metals were about on par with the 1984 period.

Inco said its average realized price for primary nickel was \$2.53 a lb, compared with \$2.50 a lb in the second quarter and \$2.40 a lb in the third quarter last year. Inco called on the LME to suspend nickel trading because of "undue influence" from the tin crisis and said it would not consider the LME nickel price a meaningful indicator as long as it was influenced by the tin situation.

The spot LME nickel price finished October at \$1.8262 a lb, after having fallen to \$1.7855 a few days earlier. The LME price averaged \$1.9222 a lb in October, down from \$2.0677 the month before and \$2.2203 in August. In October 1984, it averaged \$2.1532 a lb. □

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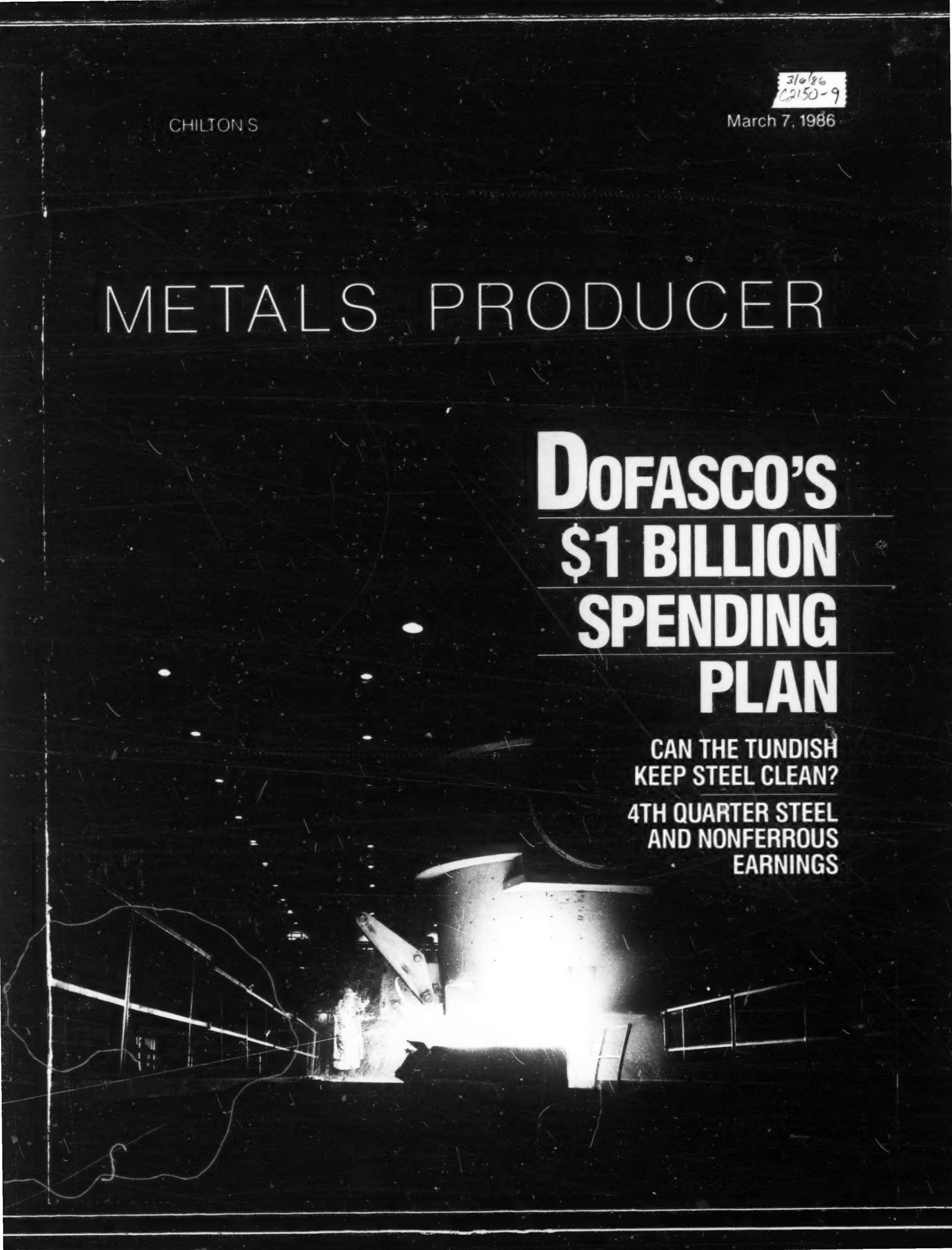
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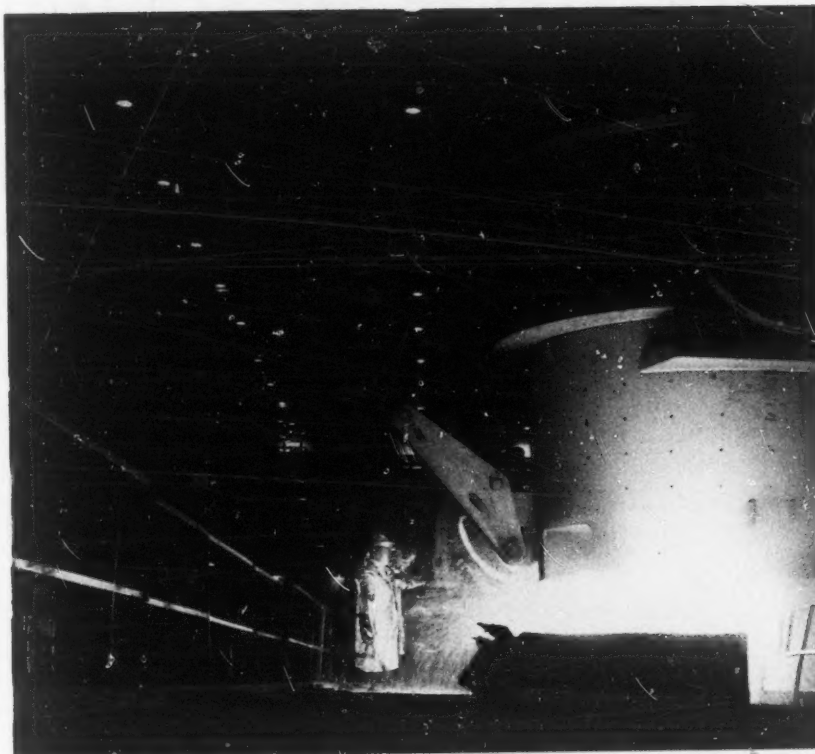
**CAN THE TUNDISH
KEEP STEEL CLEAN?**

**4TH QUARTER STEEL
AND NONFERROUS
EARNINGS**



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4TH QUARTER EARNINGS

SOFT PRICES WEAKEN METAL PROFITS

BY GEORGE J. MCMANUS AND ROBERT REGAN

Sagging prices offset much of the steel industry's cost-cutting measures—and profits—in 1985. Likewise, price weakness kept many of the aluminum producers from posting better results.

Steel

In 1985, steel companies did a good job of documenting their need for cost relief.

The loss of more than \$1 billion was the fourth straight annual deficit for the industry. This record gave management a powerful argument as it moved into contract negotiations with United Steelworkers of America (USWA).

The Steelworkers were well aware of the financial crisis. Shortly after LTV Corp. reported a 1985 loss of nearly \$724 million, the union agreed to defer a 45¢ pay hike due Feb. 1 at LTV Steel.

There was a good chance all the mills would be able to reduce labor costs or at least stabilize them in 1986. Apart from financial considerations, a big wage settlement would leave the Steelworkers in a poor position to secure favorable government action on trade and economic matters.

There will probably be cost relief, but there's no guarantee this will solve problems. The steel companies have been cutting costs right along.

The labor cost per hour has declined and a lot fewer hours have been going into steel manufacture. The problem is that steel prices have been falling faster than costs. The extent of the price erosion was spelled out by Frank W. Luerssen, chairman of Inland Steel Co.

"Since 1981, Inland's last profitable year, average price realization for the company's steel products stated in constant 1985 dollars has declined 17.5 pct," said Mr. Luerssen.

In 1985, the price slide that began in 1982 accelerated. "A 10 pct

reduction in the average selling price per ton of steel more than offset substantial cost improvements in our steel operation," said Raymond Hay, chairman of LTV Corp.

LTV had a special charge of \$378 million from the idling of facilities at Aliquippa. This magnified the financial problem, but the problem was real enough. LTV Steel had an operating loss of \$227 million in 1985.

United States Steel Corp. had a net profit of \$409 million in 1985, but this was almost entirely from the Marathon Oil subsidiary and other non-steel activities. The steel segment had an operating profit of \$27 million for the full year, but an operating loss of \$88 million in the fourth quarter.

"In fact," said David M. Roderick, chairman, "with the inclusion of financial and other applicable charges, this segment has been unprofitable for four years.

"Looking at the effects of lower transaction prices alone," he added, "operating income was adversely impacted by about \$300 million in 1985 compared with 1984."

U.S. Steel's 1985 results weren't calculated to discourage further diversification. On Feb. 11, stockholders approved the acquisition of Texas Oil & Gas Corp.

Bethlehem Steel Corp. reported net losses of \$78 million for the fourth quarter and \$196 million for all of 1985. With the help of some pension and inventory adjustments, Bethlehem lowered the operating loss of its steel operation to \$3 million in the fourth quarter.

National Steel Corp. lost \$27 million in the fourth quarter and \$88

million in all of 1985. These results pointed up price problems because National specializes in sheet products and demand for sheet was strong in 1985. The problem was price not volume.

There was one conspicuous exception to the industry's profit pattern. Weirton Steel Corp. earned \$61 million in 1985 and \$12.5 million in the fourth quarter.

"Our second year as an employee-owned company was most gratifying," said Robert Loughhead, president of Weirton.

There were some heartening performances by electric furnace companies in 1985. Florida Steel Corp. had a profit of nearly \$2.5 million in the December quarter. That just about doubled the 1984 margin and would have been even better had it not been for a special charge of \$725,000 for environmental work.

Laclede Steel Co. continued to operate in the black. Operating at 90 pct in 1985, Laclede had a profit of more than \$5.2 million.

No one was very optimistic about prospects for 1986. There had been no dramatic change, but steel shipments in the first quarter will probably be up about 500,000 tons from the first quarter of 1985.

It's possible demand will be inflated in the first half by hedge buying in anticipation of a possible strike Aug. 1. The mills were trying to ward off abnormal buying by negotiating early settlements.

The big variable in the price and volume picture was imported steel. In 1985, the Reagan Administration's restraint program failed.

(Sales and earnings table appears on p. 49; story continues on p. 51.)

STEEL: THE PRICE WAR TAKES ITS TOLL

1985 PROFIT REPORT (In Millions of Dollars)

	EARNINGS				SALES		
	1985 E/S	1985	1984	Pct Change	1985	1984	Pct Change
USS	2.1	\$409.0	\$493.0	-17.0	\$19,283.0	\$19,124.0	+0.9
LTV	—	(723.9)	(378.2)	—	8,200.0	7,460.0	+10.0
BETHLEHEM	—	(196.6)	(112.9)	—	5,117.7	5,392.1	-5.1
ARMCO	1.5	55.0	(295.0)	—	3,732.7	4,042.6	-7.7
INLAND	—	(178.4)	(41.4)	—	2,999.4	3,135.0	-4.3
NATIONAL	—	(88.4)	20.8	—	2,082.3	2,293.1	+9.2
TOTAL	—	(722.7)	(313.3)	—	41,415.1	41,426.8	—
CYCLOPS	1.9	26.2	18.4	+42.0	1,358.8	1,271.6	+6.9
WEIRTON	5.3	61.0	60.6	+0.7	1,156.3	1,075.1	+7.5
INTERLAK	3.3	28.2	36.6	-23.0	850.2	845.1	+0.6
LUKENS	—	4.2	4.7	—	432.5	416.4	-1.5
COPPERWELD	—	(22.5)	(4.5)	—	350.2	433.5	-20.0
QUANEX	3.4	10.1	2.0	+411.0	297.0	398.8	-25.0
FLORIDA	2.7	7.7	6.7	+16.0	288.0	286.1	+0.7
CF&I	—	(3.5)	(28.2)	—	253.3	325.3	-22.0
CARPENTER	—	(0.9)	11.7	—	239.0	264.5	-9.6
LACIEDE	2.3	5.2	7.5	-30.0	223.8	231.6	+3.4

*Carpenter six months only.

FOURTH QUARTER PROFIT REPORT—1985 (In Millions of Dollars)

	EARNINGS				SALES		
	1985 E/S	4th Q 1985	4th Q 1984	Pct Change	4th Q 1985	4th Q 1984	Pct Change
USS	1.2	\$57.0	\$29.0	+97.0	\$4,731.0	\$4,659.0	+1.5
LTV	—	(75.7)	(246.7)	—	2,064.0	2,008.0	+2.8
BETHLEHEM	—	(77.5)	(64.5)	—	1,285.9	1,188.7	+8.1
ARMCO	1.2	10.4	(64.5)	—	863.9	988.2	-13.0
INLAND	—	(90.5)	(28.3)	—	716.4	723.4	-1.0
NATIONAL	—	(27.2)	1.9	—	508.3	548.3	-7.3
TOTAL	—	(203.5)	(373.1)	—	10,165.5	10,117.6	+0.5

NONFERROUS: LITTLE OR NO PROFITS

FOURTH QUARTER PROFIT REPORT—1985 (In Millions of Dollars)

	NET INCOME			SALES AND OTHER REVENUES		
	4th Q 1985	4th Q 1984	Pct Change	4th Q 1985	4th Q 1984	Pct Change
ALCAN	(\$212.0)	\$23.0	—	\$1,488.0	\$1,319.0	+12.8
ALCOA	(120.9)	(14.7)	—	1,213.4	1,386.0	-12.5
ALUMAX	27.8	15.7	+77.1	455.0	497.0	-8.6
ASARCO	(24.9)	(236.3)	—	308.9	282.2	+9.5
BRUSH WELLMAN	(3.8)	9.8	—	57.5	69.7	-17.5
COMINCO	(71.6)	(5.1)	—	327.2	375.8	-12.9
CYPRUS MINERALS	(415.8)	(39.5)	—	218.7	141.2	+54.9
ECHO BAY	5.5	6.8	-19.1	30.1	24.6	+22.4
ENGELHARD	11.1	17.7	-37.3	675.3	642.3	+5.1
FALCONBRIDGE LTD.	7.6	9.0	-15.6	186.5	160.9	+15.9
FREEMPT MCMORAN	14.5	24.9	-41.8	155.1	216.3	-28.3
HECLA MINING	(3.9)	(4.2)	—	17.5	22.2	-21.2
INCO	7.6	4.5	+68.9	384.6	388.8	-1.1
INT'L ALUMINUM	3.9	5.0	-22.0	79.0	77.9	+1.4
KAISER ALUMINUM	(107.8)	3.9	—	512.5	520.8	-1.6
NEWMONT MINING	(61.5)	4.3	—	178.3	157.7	+13.1
OLIN	8.4	12.2	-31.1	390.6	431.7	-9.5
OREMET	0.6	2.8	-78.6	12.0	14.7	-18.4
PHILIPS DODGE	6.6	(217.6)	—	225.4	217.6	+3.6
PINE POINT MINES	(49.0)	3.8	—	18.3	29.6	-38.2
REVERE COPPER	(8.0)	8.6	—	116.9	143.1	-18.3
REYNOLDS METALS	0.3	38.4	-99.2	806.9	839.6	-3.9
SHEPPITT GORDON	(23.8)	4.4	—	99.7	105.3	-5.3
VULCAN MATERIALS	12.0	17.4	-31.0	239.0	250.4	-4.6

Alcan Aluminum Ltd. Net loss for 1985 period includes net charge of \$215 million for writedown of bauxite and alumina investments, raw material inventory writedown and some overseas investments. Also includes on \$8 million extraordinary credit from tax-loss carryforward. Net for 1984 period includes \$8 million extraordinary credit from tax-loss carryforward. **Aluminum Co. of America** Net loss for 1985 period includes \$144.6 million charge from plant closings and writedowns. Net loss for 1984 period includes writedowns of \$53.5 million and net gains of \$20.5 million from sale of a plant and \$4.3 million from sale of real estate. **Asarco Inc.** Net loss for the 1985 period includes a \$4.5 million charge related to the closing of a zinc oxide plant in Columbus, Ohio. Net loss for the 1984 period includes \$216 million charge for plant closings and writedown of assets. **Brush Wellman Inc.** Net loss for 1985 period includes \$9.8 million loss from discontinued operations. **Cominco Ltd.** Canadian funds. Net loss for 1985 period includes extraordinary charge of \$36 million. **Cyprus Minerals.** Net loss for 1985 period includes \$432.5 million charge from writedown of assets. Results for both periods are pro forma; company was spun off by Amoco Corp. on July 1, 1985. **Echo Bay Mines Ltd.** Canadian funds. Results for 1985 period include company's 50 pct interest in Round Mountain gold mine. **Falconbridge Ltd.** Canadian funds. **Hecla Mining Co.** Net loss for the 1984 period includes \$1.97 million tax benefit from tax-loss carryforward. **Kaiser Aluminum & Chemical**

Corps. Net loss for 1985 period includes \$1.5 million loss from disposition of discontinued operations. **Mormont Mining Corp.** Net loss for 1985 period includes \$56.7 million net charge for asset writedowns and closings and \$462,000 tax benefit from tax loss carryforward. Net for 1984 period includes \$3.8 million tax benefit from tax loss carryforward. **Olin Corp.** Net for 1984 period includes \$4.3 million income from discontinued operations. **Philips Dodge Corp.** Net for the 1985 period includes a \$2.8 million tax benefit from tax loss carryforward. Net for the 1984 period includes \$216 million in charges from closings of plants and writedown of assets. **Pine Point Mines Ltd.** Canadian funds. Net loss for 1985 period includes extraordinary charge of \$47.6 million. **Revere Copper & Brass Inc.** Loss for the 1985 period includes a \$4.6 million loss from sale of assets, restructurings and settlements of claims compared with \$9.4 million in losses for the same 1984 period. Loss for 1985 period also includes net charge of \$46,000 resulting from \$1.70 million gain from settlement of liabilities and a \$1.75 million charge from reversal of tax-loss carryforward. **Reynolds Metals Co.** Net for 1985 period includes \$4.6 million tax benefit from tax loss carryforward. Net for 1984 period includes \$4.3 million tax benefit from tax loss carryforward. **Sheppitt Gordon Mines.** Canadian funds. **Vulcan Materials Corp.** Results include losses from discontinued operations amounting to \$2.3 million in the 1985 period and \$875,000 in the 1984 period.

"Imports of finished steel products last year accounted for an estimated 23.6 pct of the U.S. market, almost 30 pct above the target of 18.5 pct set by the President," said Donald H. Trautlein, chairman of Bethlehem Steel Corp.

Domestic producers are hoping for a downturn in 1986, but no new trend was seen in the latest government figures. More than 2 million tons were imported in December.

Nonferrous

For many nonferrous metals companies, 1985 was another year spent out of sync with the business recovery that started the year before. The fourth quarter was no exception and it also was a period of big writeoffs of plant and assets that swept across large portions of the aluminum and copper landscapes.

Not that the demand wasn't there. The aluminum producers' shipments were about on par with 1984, a record year consumption-wise. And copper consumption also was high. Phelps Dodge Corp., which managed to stay in the black in the fourth quarter, had an 8 pct increase in copper sales last year, but industry shipments overall were off about 5 pct despite lower imports.

The problem once again was prices. While copper prices were a bit firmer in the fourth quarter, on an annual basis, they looked like a replay of 1984.

Aluminum prices started sagging last Spring and didn't start showing signs of life until the latter weeks of the fourth quarter—too late to do much good before the books were closed on the quarter and the year.

Despite a downturn in nickel prices on the terminal market, Inco, Ltd., and Falconbridge, Ltd., managed to stay in the black. Stringent cost-cutting measures were given most of the credit.

There was a lot of fourth quarter red ink in the aluminum sector, where the write-offs were heaviest.

Alcan said two-thirds of its fourth quarter writedown related to bauxite and alumina facilities. The company's deliveries of ingot and fabricated products were up sharply in the

quarter and full year and it managed to trim inventory despite the extra 100,000 tons of metal that came with the purchase of aluminum smelting and fabricating units from Atlantic Richfield Co.

Alcan said its realizations on ingot sales didn't bottom until the fourth quarter and fabricated product margins also were narrower. The Canadian company noted that hedge market prices for aluminum ingot began showing signs of improvement early in December.

Alcoa's shipments were down sharply in the fourth quarter and also were lower for the year. Charles W. Parry, chairman, said Alcoa's "restructuring program continued in 1985, with asset sales and write-offs that will improve the company's cost structure. Stripping away the unusual items, Alcoa generated a profit of \$100.3 million from ongoing operations for the year." Mr. Parry said Alcoa's capital spending program should be about \$610 million this year, compared with \$538 million spent last year out of an initial budget of \$670 million. A lot of the emphasis will continue to be applied to rolling capacity.

David P. Reynolds, chairman of Reynolds Metals Co., said the uptrend in aluminum ingot prices early in 1986 should be followed by higher tags on fabricated products as the year progresses.

Kaiser Aluminum's fourth quarter loss of \$107.8 million was after a revised after-tax charge of \$119.2 million in asset writedowns.

Phelps Dodge said its primary metal segment, consisting principally of its copper-producing operations from mining through copper rod casting, recorded an \$18.4 million profit from operations in the fourth quarter compared with \$25.6 million in red ink during the same 1984 period.

The improvement was marked without much help from prices. The New York Commodity Exchange (Comex) price averaged 61.6¢ a lb compared with 57.8¢ a lb in the final 1984 period, but for the year as a whole, the average was 61¢ for 1985 and 61.3¢ for 1984. □

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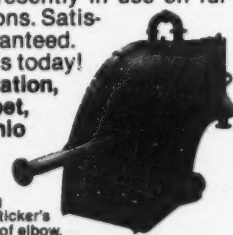
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